

**REPORT TO THE CITY COUNCIL**

**BY THE CITY INTERNAL AUDITOR**

**AUDIT OF THE**

**SHREVEPORT AREA TRANSIT SYSTEM (SPORTRAN)**

**IAR 160198-01**

**MAY 27, 1998**



May 27, 1998

Councilman James Green  
Chairman, Shreveport City Council  
P. O. Box 31109  
Shreveport, LA 71130-1109

Dear Councilman Green:

Subject: IAR 160198-01 - Audit of the Shreveport Area Transit System (SporTran)

Attached please find the report mentioned above. Management comments are included in the report.

Sincerely,

Radford K. Snelding, CFE, CGFM, CIA  
City Internal Auditor

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# **EXECUTIVE SUMMARY AUDIT OF THE SHREVEPORT AREA TRANSIT SYSTEM (SPORTRAN) INTERNAL AUDIT REPORT 160198-01**

The purpose of the executive summary is to convey in capsule form the significant issues of the audit report. The executive summary is a vehicle for reviewing the report and should only be used in conjunction with the entire report.

## **INTRODUCTION**

The Shreveport Area Transit System (SporTran) is the mass transit system for the City of Shreveport that provides bus services for the residents of the cities of Shreveport and Bossier City.

## **OVERVIEW OF SIGNIFICANT ISSUES**

The Internal Audit Office appreciates the courtesy and cooperation extended to us by SporTran personnel during the audit.

Based on the results of our audit, some of our recommendations are identified below:

- ? We proposed developing a policies and procedures manual for each distinct operational area within SporTran as a fundamental step in enhancing uniformity and accountability over operations.
- ? We recommended that City Administration improve documentation with regard to the competitive procurement process administered for the SporTran management services agreement. The audit revealed that, because of inadequate documentation, there was a lack of assurance that selection procedures were open, fair, and competitive.
- ? We determined that documented policies and procedures for training of personnel would provide a consistently sound basis for ensuring equitable opportunities for employee development.
- ? Finally, we suggested several recommendations related to consistently accounting for and reviewing cash activities that would strengthen controls in the cash handling area.

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# **AUDIT OF SHREVEPORT AREA TRANSIT SYSTEM (SPORTRAN) INTERNAL AUDIT REPORT (IAR) 160198-01**

## **OBJECTIVES**

We have completed an audit of the Shreveport Area Transit System (SporTran). Our objectives included the following:

- ? Determining compliance with the management agreement by and between the City of Shreveport and Metro Management Associates, Inc.
- ? Determining compliance with federal, state, and local laws and regulations governing grant monies received.
- ? Determining if goals and objectives of the unit were being met.
- ? Ascertaining if proper controls over cash, inventory, and payroll were established.

## **SCOPE AND METHODOLOGY**

Our audit was performed in accordance with applicable generally accepted governmental auditing standards. The scope of internal control was limited to the general controls surrounding the specific issues addressed. General audit procedures included:

- ? Interviewing appropriate personnel.
- ? Testing compliance with established or stated policies and procedures.
- ? Observing operations and ongoing activities.
- ? Reviewing records, reports, and other applicable documentation.

## **BACKGROUND**

The Shreveport Area Transit System (SporTran) is established pursuant to Article 9 of the Shreveport City Charter, which provides that a “city transit department shall be responsible for the proper operation and management of public transportation in the city...” The City has entered into an agreement with a management company for the management and operation of the transit system. Approximately 105 private employees are employed by SporTran, and most of these are hourly employees represented by a union.

In 1997, SporTran’s service consisted of 16 bus routes in Shreveport and Bossier City, which carried approximately 3.5 million passengers. The bus service operated with 45 vehicles, seven days a week.

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SporTran's 1997 operating budget was \$6.4 million.

### **CONCLUSIONS/FINDINGS/RECOMMENDATIONS**

Generally, we found management and operations over SporTran to be efficient and effective. Commendably, according to a 1995 study conducted by the University of North Carolina at Charlotte, SporTran ranked 12th out of 127 bus transit systems nationally for providing the most efficient services. Also, we noted goals and objectives for SporTran were being developed, reported, and monitored.

As a result of our audit, we have made recommendations to management that may further enhance operations. Accordingly, we believe management could improve the control environment by implementing the following:

- ? Developing a policies and procedures manual(s) for operations.
- ? Maintaining complete documentation of the competitive procurement process for the management services agreement.
- ? Maintaining a centralized record of training statistics to ensure training needs are met for each individual, group, or department.
- ? Ensuring pension fund expenditures are charged to the pension fund and not to the general operating account.
- ? Analyzing personnel resource allocation within the maintenance department for increased efficiency.
- ? Completing construction of the maintenance facility.
- ? Performing independent reviews and reconciliations of the M.E.M. Refund Account.
- ? Documenting and following a consistent policy for recording and reconciling M.E.M. count shortages and overages.
- ? Depositing idle funds into the operating account.
- ? Complying with the management agreement regarding signed automobile agreements for SporTran employees assigned City vehicles.
- ? Utilizing annual evaluations for salaried employees.
- ? Improving controls over inventory.
- ? Ensuring employees sign time cards.

## **1. Policies and Procedures Manual**

### **Finding:**

**Criteria:** A standard operational procedures manual can improve operations by providing uniformity in practices, establishing clear lines of responsibility, enhancing accountability, and lessening the threat to continuity posed by employee turnover.

**Condition:** SporTran does not have centralized standard operational procedures that clearly communicate and define authority and responsibility to its employees. Although some policies and procedures are documented, a centralized and comprehensive manual is not available for each distinct operational department/area.

In addition, both the City personnel department and the federal auditors have documented findings related to an inadequacy of policies and procedures. Personnel noted in a report released February 3, 1998, that "charges of inequity about any human resource area can most easily be remediated by establishing open, simple and accessible procedures and practices...(and) would include formalizing hiring and selection procedures." In the past, the federal auditors have also noted a need for documented procedures for competitive procurement, obtaining comments in a public forum prior to a fare increase or service reduction, etc.

### **Effect:**

- ? Operations may not be in accordance with mission.
- ? Existing laws and regulations may be violated.

**Cause:** Management stated with the low employee turnover rate and inside promotions (most management personnel have come up through the ranks and can perform operational duties in their respective areas), developing an operational procedures manual was not needed.

**Recommendation:** Management should require each distinct operational area (i.e., Maintenance, Finance, Transportation, Customer Service, ADA Services, Grants/Purchasing) to develop its own comprehensive standard operational procedures manual.

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For example, a manual for Maintenance might include:

- a. Procedures for preventative maintenance (already documented).
- b. Procedures for the computerized inventory system that would define the flow of parts and documents and provide sufficient information to facilitate adequate record-keeping and maintenance of proper control over inventory.

A manual for Finance might, among other major responsibilities define:

- a. The flow of documents throughout SporTran and provide sufficient information to facilitate adequate record-keeping and maintenance of proper control over cash receipts. For example, the manual should: (1) document procedures for fare box collections and cash counts; (2) document procedures for reconciliation of fare box collections; (3) establish variance limitations; and (4) establish lines of authority and responsibility.
- b. Procedures for payroll processing (handwritten procedures are documented, but should be automated and updated).

**Management Response:** SporTran has established and recently filled the Human Resources-EEO Coordinator's position. One of the tasks for this position is to establish a company training policy, determine the critical training needs and establish training programs to meet these needs. In the future a centralized records system will be established to monitor all employee training needs and accomplishments. Additionally, the coordinator will work with managers and department heads to develop a company policy and procedures manual which will also include a comprehensive procedure manual for each department. It will be the responsibility of the EEO Coordinator to insure that this task is completed.

## **2. Documentation of the Competitive Procurement Process for the Management Services Contract**

### **Finding:**

**Criteria:** As documented by federal auditors in a Triennial Review report on SporTran activities, dated March 11, 1996, federal requirements state "...all professional services, regardless of contract amount, must be procured by a competitive process."

**Condition:** We noted that City Administration officials did not maintain adequate



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documentation of the competitive procurement process conducted in 1996 for the selection of professional management services. Although City Administration did provide a Request for Proposal (RFP) document for the management services contract along with one entity's letter rejecting the opportunity to submit a bid proposal, this evidence did not provide sufficient assurance that competitive review and selection procedures were applied in contracting for the management services contract. For example, a listing of all firms who received the RFP was not made available. In addition, there was no evidence of public notice or advertisement of the solicitation.

**Effect:** Without adequate documentation, there is a lack of assurance that selection procedures were open, fair, and competitive.

**Cause:** City Administration reported that a complete set of documents regarding the selection process could not be found.

**Recommendation:** We recommend City Administration ensure that documents related to this competitive procurement process be properly maintained. In the future, to assure that competitive review and selection procedure are applied in contracting for the management services agreement, we suggest the RFP document be communicated to prospective management companies by an appropriate form and manner to assure open and competitive coverage, such as a public notice in the newspaper.

**Management Response:** CAO: I agree. In the future, your recommendations will be followed.

### **3. Centralized Training Files**

#### **Finding:**

**Criteria:** Section III.A.n of the management contract agreement between the City of Shreveport and Metro Management Associates (MMA) requires the management company ensure "employing, training, and retraining of all personnel."

**Condition:** During our review, we noted management does not maintain a centralized record of training statistics for its employees. Although training information for each employee is maintained in the employee's personnel file, it is difficult to use this decentralized information to adequately analyze, assess, and evaluate training needs for each individual, group, or functional area.

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In addition, although training may come about through initial orientation, the normal job experience, and as a result of supervisory efforts, development over and above this "on-the-job" instruction is not emphasized for bus operators.

#### **Effect:**

- ? Possibility of inadequately and improperly trained employees.
- ? Possible inefficiencies in job performance.
- ? Possible inadequate identification of training needs.
- ? Potential for inadequate evaluation of training and development programs.

**Cause:** Management has developed no formal procedure for training and retraining of personnel.

**Recommendation:** We recommend that management:

- ? Maintain a centralized record of training statistics for its employees by department or functional area.
- ? Evaluate the skills and qualifications of current employees in order to identify current and future training needs of individuals, groups, and the department as a whole.
- ? Develop a written policy on personnel training and development to be included as part of the policies and procedures manual. At a minimum, the training should provide the necessary instructions to carry out a particular job assignment. However, the training may also be of a broader nature and pertain to the development of additional skills and responsibilities required for job advancement or job promotion.

**Management Response:** SporTran has established and recently filled the Human Resources-EEO Coordinator's position. One of the tasks for this position is to establish a company training policy, determine the critical training needs and establish training programs to meet these needs. In the future a centralized records system will be established to monitor all employee training needs and accomplishments. Additionally, the coordinator will work with managers and department heads to develop a company policy and procedures manual which will also include a comprehensive procedure manual for each department. It will be the responsibility of the EEO Coordinator to insure that this task is completed.

#### **4. Inappropriate Charges to the General Operating Account**

**Finding:**

**Criteria:** Generally accepted accounting principles require that monies are expended from funds only for properly authorized purposes.

**Condition:** Pension plan fund expenditures totaling over \$6,000 were improperly charged to the general fund operating account. This amount was deducted from the general fund operating account to pay travel-related expenses for four Pension Committee members on pension business.

**Effect:**

- ? Fund expenditures are inaccurately stated.
- ? Inappropriate/unauthorized charges to the general fund account.

**Cause:** Management was not timely informed of the pension trip. Therefore, they were not able to timely charge these expenditures to the pension fund. As a result, charges were made to the general fund operating account and were later reimbursed to the pension fund.

**Recommendation:** In the future, management should ensure adequate planning for approval of pension fund expenditures. These expenditures should not be deducted from the operating account.

Additionally, management should ensure the pension fund travel expenses are reimbursed to the general fund operating account.

**Management Response:** In future transactions SporTran will not charge pension expenses to the operating account for later reimbursement from the pension fund. It will be the responsibility of the Finance & Accounting Department to insure that this task is completed.

#### **5. Personnel Resource Allocation**

**Finding:**

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**Criteria:** Resources should be allocated and utilized as efficiently and effectively as possible.

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**Condition:** During our review, we noted personnel resources in the maintenance department were not utilized efficiently. Ten maintenance personnel were scheduled for work during the day shift, when the majority of buses are out on runs. However, much of the maintenance and repair work can only be performed during the evening or graveyard shifts, when the buses have returned from their runs. We noted, however, these shifts have fewer maintenance personnel scheduled for duty. Typically, the evening shift has six maintenance personnel regularly scheduled for duty, while the graveyard shift has three regularly scheduled personnel.

**Effect:**

- ? Personnel resources may be inefficiently allocated.
- ? Working shifts may have inequitable workloads.
- ? The day shift may be over-staffed.
- ? The evening/graveyard shifts may be understaffed.

**Cause:** This condition may be caused by entrenched practices within the department.

**Recommendation:** We recommend that management perform a workload analysis study for the maintenance department to determine the most efficient allocation of personnel resources. Since work orders for each maintenance or repair job is already input into the system, management may develop a reporting system to analyze this information, by shift, to determine the most efficient utilization of maintenance personnel.

**Management Response:** SporTran Maintenance Department will perform a study of work schedules based on needs. It will be the responsibility of the Maintenance Department to insure that this task is completed.

## **6. Maintenance Facility Completion**

**Finding:**

**Criteria:** An initial goal proposed by management for SporTran's new maintenance facility estimated that the project would be completed by February, 1998.

**Condition:** During our review, we noted the maintenance facility construction project was behind schedule at least 14 months from the original prediction. As of March, 1998, construction on the

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maintenance facility project had not begun. Management has estimated that the construction phase will begin in June, 1998, and is expected to last one year. Based on these updated estimates, the project will be completed in June, 1999, approximately 14 months behind the original schedule.

**Effect:** Because of inflation, the amount authorized from grants and bonds to build the facility is now worth less than in the past. Further delay of construction of the maintenance facility could increase costs.

**Cause:**

- ? The project manager has stated one reason for the delay was the difficulty in agreeing to contract terms with the architectural firm.
- ? The project manager stated another principal reason for the delays was to ensure proper and thorough planning of the new facility.
- ? Management also stated that the original estimates were overly optimistic.

**Recommendation:** We recommend that management proceed with construction of the maintenance facility project as expediently as possible.

**Management Response:** SporTran is proceeding with construction of the maintenance facility project as expediently as possible. All plans should be finalized and ready for bidders in June 1998. Construction is now estimated to take between twelve and eighteen months from the date of ground breaking. It is the responsibility of the Assistant Resident Manager to insure that this task is completed.

## **7. Supervisory Review of Money Exchange Machine (M.E.M.) Refund Account**

**Finding:**

**Criteria:** Good internal control policies dictate that independent reviews and reconciliations be performed periodically on all cash accounts.

**Condition:** Management does not perform, on a periodic basis, a supervisory review and reconciliation of the M.E.M. Refund Account. This is an actual cash balance, maintained by one SporTran employee, accumulated from overages and shortages from the M.E.M. money

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counts.



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For example, when customers lose money in the M.E.M. (or change) machines, the money is deducted from this account and refunded to the customers. Likewise, overages from the M.E.M. money count are added to the M.E.M. Refund Account.

**Effect:** Without independent reviews and reconciliations of the M.E.M. Refund Account, there is an increased possibility that theft and manipulation of the funds will not be detected.

**Cause:** Management has never adopted a documented policy for independent reviews and reconciliations of the M.E.M. Refund Account.

**Recommendation:** We recommend management periodically (at least annually) perform and document independent reviews and reconciliations of the M.E.M. Refund Account. This would entail reconciling the total balance in the detailed records with the balance in the related actual cash account.

**Management Response:** Management will perform and document independent reviews and reconciliations of the M.E.M. Refund Account semi-annually. It will be the responsibility of the Transportation Department to insure that this task is completed.

## **8. Consistent Reporting of M.E.M. Shortages**

### **Finding:**

**Criteria:** Good internal control policies dictate a consistent method for recording and reconciling cash overages and shortages. When there is a shortage in the M.E.M. (or change fund) money count, practice dictates the amount should be deducted from the M.E.M. Refund Account and added to the change fund.

**Condition:** During our review of M.E.M. count documentation for the period of July through December, 1997, we noted deviations from the proper procedures for recording shortages. Typically, shortages may range from \$0.01 up to \$2.00.

- ? In one instance, money was removed from a bad coin bag to make up the shortage. This bad coin bag has been used, in many cases, as a "slush fund."
- ? In another instance, personal funds were added to make up the difference.

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#### **Effect:**

- ? Slush funds make it easier to improperly manipulate funds.
- ? Personal funds have been commingled with City funds.

**Cause:** Management has never adopted a documented, consistent policy for recording and reconciling M.E.M. count shortages and overages. As a result, employees felt it was appropriate to use personal funds and the bad coin bag to make up shortages. During cash counts, these funds were more readily accessible than the M.E.M. Refund Account funds.

#### **Recommendation:** We recommend management:

- ? Document a consistent policy for recording and reconciling M.E.M. count shortages and overages.
- ? Determine if the bad coins are negotiable. Those coins that are negotiable should be deposited into the operating account.
- ? Cease the practice of commingling personal funds with City funds.

**Management Response:** Management will document a consistent policy for recording and reconciling M.E.M. count shortages and overages. We will determine if the bad coins are negotiable. Those coins that are negotiable will be deposited into the operating account. We will cease the practice of commingling personal funds with City funds. It will be the responsibility of the Transportation Department to insure that this task is completed.

## **9. Idle Funds**

#### **Finding:**

**Criteria:** Good business practices dictate that idle funds should not be maintained on hand for extended periods of time.

**Condition:** Based on past history, SporTran does not need at least \$220 of the \$700 total change fund for use in the change machines at the downtown terminal. The \$220 is never exchanged. However, it is kept in the locked safe on the SporTran premises.

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#### **Effect:**

- ? The \$220 in idle funds is not earning interest.
- ? Idle funds kept on hand are subject to increased risk of theft or fraud.

**Cause:** Management has not considered depositing the idle funds a significant priority, although an employee has requested that the idle funds be deposited.

**Recommendation:** Due to the lack of use of the \$220 change fund amount, we recommend management prepare the necessary paperwork to deposit these idle funds into the operating account.

**Management Response:** Management will input the total \$700.00 into the Money Exchange Machine (M.E.M.), and go to a weekly, or as needed, M.E.M. exchange. Henceforth, no M.E.M. funds will be idle in the SporTran safe. It will be the responsibility of the Transportation Department to insure that this task is completed.

## **10. Automobile Agreements**

#### **Finding:**

**Criteria:** Section V.B. of the management agreement between the City of Shreveport and MMA requires "...all (SporTran) employees assigned a city vehicle will be required to sign an automobile Agreement designated by City."

**Condition:** Management could not provide signed automobile agreements for those SporTran employees assigned a city vehicle. The only available and related documentation contained in the files was correspondence, submitted to Shreveport Parks and Recreation (SPAR) in 1992, listing the names of SporTran employees with take-home cars. Although changes have occurred since then, this list has not been updated.

#### **Effect:**

- ? Non-compliance with contract terms.
- ? Inadequate control over City property.

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**Cause:** A lack of management oversight resulted in non-compliance with this contract provision.

**Recommendation:** We recommend that management confer with appropriate City officials and develop and/or obtain automobile agreements for signature by those SporTran employees assigned a city vehicle.

**Management Response:** SporTran will update its files on all employees with take-home cars, to include updated signed agreements from all employees assigned cars. It will be the responsibility of the Executive Assistant to insure this task is completed.

## **11. Employee Evaluations**

### **Finding:**

**Criteria:** A SporTran November 1997 Activity Summary report submitted to the City indicated evaluations would be completed by January, 1998, for SporTran's salaried employees. This would be the first time SporTran had developed an evaluation process for salaried employees. Such reviews are necessary to determine how well an employee is meeting job standards and objectives and identifies areas needing further development.

**Condition:** During our fieldwork, we noted management had not performed a proper evaluation to appraise the quality of performance for some salaried employees. Department heads and coordinators had been evaluated; however, other supervisory and clerical personnel had not been evaluated.

### **Effect:**

- ? Employees may be unaware of what is expected of them and in what way their performance is superior or deficient.
- ? Without documented evaluations, there is a lack of evidence to support pay increases or promotions for employees.

**Cause:** In the past, salaried employees generally received raises consistent with the raises given to hourly employees under the labor union contract. As a result, management did not utilize annual evaluations for its salaried employees.

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**Recommendation:** We recommend that management employ annual evaluations for all salaried employees. These evaluations could be the basis for supporting pay increases or promotions for salaried employees.

**Management Response:** In late 1997 SporTran established an evaluation process for all salaried (non-union) employees.

Evaluations were given by management to all department heads and coordinators (approximately half the salaried staff). Based on their experience with the new evaluation process, department heads and coordinators will, in turn, evaluate their employees. We expect to have the first round of annual evaluations completed by mid-year 1998. It is the responsibility of the Management Team to insure that this task is completed.

## **12. Inventory Controls**

**Finding:**

**Criteria:** To ensure assets are properly accounted for, good internal control procedures dictate inventory records should be reconciled periodically with an actual physical count.

**Condition:** From our sample of fixed asset inventory items, we noted discrepancies between our actual physical count and inventory records. Specifically:

- ? Four (50%) of eight inventory items could not be traced from the floor to inventory records.
- ? One (13%) of eight inventory items could not be traced from the inventory records to the floor.

From our sample of parts inventory, we also noted discrepancies between our actual physical count and inventory records. Specifically, we noted:

- ? In one (10%) of ten instances, there was an overage of one inventory item.
- ? In two (20%) of ten instances, there was a shortage of two and three inventory items, respectively.

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#### **Effect:**

- ? Inventory records may be inaccurate and unreliable.
- ? Theft and waste of inventory items may not be detected timely.

**Cause:** For some fixed asset inventory items, City of Shreveport inventory tags had not been affixed to the asset items. Therefore, these fixed assets could not be properly accounted for and identified in the fixed asset inventory records.

In some cases, when inventory parts are used, the parts are not properly entered on the work order form. Information from the work order form is used to update parts inventory records. Consequently, if the part is not entered on the work order form, then inventory records are inaccurate.

**Recommendation:** We recommend management:

- ? Ensure all fixed assets have a City of Shreveport tag properly affixed so the asset can be accounted for and identified accurately.
- ? Ensure employees properly enter used parts inventory on the work order form so that inventory records are accurate.

**Management Response:** We have one parts clerk position for a shop that operates seven days a week, twenty-four hours a day. The cost of hiring additional parts clerks to staff evening and night shifts would eliminate the problem, but would not be worth the cost. We will monitor the parts check out more closely and work to reconcile records to actual counts. It will be the responsibility of the Maintenance Department to insure that this task is completed.

All fixed assets will be properly identified with a tag or will be permanently marked with the City Identification number if the tag is missing. It will be the responsibility of Accounting and Finance to insure that this task is completed.

## **13. Approval of Payroll Time Cards**

#### **Finding:**

**Criteria:** Adequate internal controls require employee signatures on time cards. This signature is part of the approval process attesting to the fact that an employee is authorizing payment as a result of hours worked.

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**Condition:** During our payroll test work, we noted that maintenance payroll time cards were not always signed by the employee. This recurring problem was also noted in the external audit management letter dated March 17, 1995.

**Effect:**

- ? Unsigned time cards question the authorization for payment of hours worked.
- ? The approval process is inadequate.

**Cause:**

- ? Employees may forget to sign time cards.
- ? Payroll employees have stated that some employees deliberately and intentionally refuse to sign time cards.

**Recommendation:** We recommend that management require employees to sign time cards. Since signatures are part of the approval process, we recommend that unsigned time cards be returned for appropriate approval.

**Management Response:** Management will post a Notice to all employees requesting that all time cards be signed before submitting them to the supervisors. It will be the responsibility of Accounting and Finance to insure that this task is completed.

Prepared by:

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Staff Auditor III

Approved by:

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City Internal Auditor

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c: Mayor  
    CAO  
    City Council  
    Clerk of Council  
    City Attorney  
    External Auditor